

H-3103-1 - FEES, RENTALS, AND ROYALTY

KeywordsVII. Reduction of Rental and RoyaltyA. General

Determinations for waiver, suspension, or reduction of rental, royalty, or minimum royalty are made by the BLM Field Office fluid mineral operations personnel (State Office or, if delegated, District or Area Office). Such a waiver, suspension, or reduction is authorized by the MLA (30 U.S.C. 209) for the purpose of encouraging the greatest ultimate recovery of the mineral resource when it is in the interest of conservation of natural resources and deemed necessary to do so in order to promote development or a lease cannot be successfully operated under its lease terms. Lease royalty may be reduced, but unlike rental or minimum royalty, cannot be waived or suspended.

RENTAL OR
ROYALTY
REDUCTION

For leases where the minimum royalty exceeds production royalty, the minimum royalty may be reduced by the BLM authorized officer (Field Office Fluid Mineral Operations) to a lower rate, i.e., from \$1.50 or \$2 per acre to \$1 per acre, or to 50 cents or 25 cents per acre at the same time that a reduction of royalty is granted.

The right is reserved by the BLM authorized officer to terminate the reduction of royalty, readjust the amount of reduction, or to restore the royalty rate to that required by the lease terms and/or regulations at any time for the entire lease or for any portion thereof segregated for royalty purposes.

For a renewal lease, any reduced royalty rate does not carry over to the new renewal lease upon its issuance. The lease must be renewed at the current rates required by the leasing regulations, and a new application for a royalty or rental reduction must be filed by the lessee for a determination by the BLM authorized officer of eligibility for such a reduction.

ROYALTY REDUCTION
ON RENEWAL LEASE
NOT CARRIED OVER
ON NEW RENEWAL
LEASE

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Keywords

A Class II-reinstated lease may be granted a royalty reduction on the entire lease or a portion thereof that has been segregated for royalty purposes. The royalty reduction may be granted if the BLM authorized officer determines that there are either economic factors or other circumstances that could cause undue economic hardship or premature termination of production due to the required higher royalty that is required by the Class II reinstatement criteria. Other factors also may be weighed in granting a royalty reduction for such a lease, including a determination by the authorized officer that it is equitable to do so. (See 43 CFR 3108.2-3(f), Gulf Oil Corp., 83 IBLA 289 (1984), and Alta Energy Corp., 100 IBLA 313 (1987)).

ROYALTY REDUCTION
ON CLASS II-
REINSTATED
LEASE

A Class II-reinstated lease also may be granted a rental reduction if the authorized officer determines that there are either economic factors or other circumstances that would justify such a reduction, to promote development and be in the interest of conservation of natural resources.

RENTAL REDUCTION
ON CLASS II-
REINSTATED
LEASE

Determinations for reduction of royalty for stripper oil wells are made by the MMS. The provisions for a royalty reduction for stripper oil wells went into effect on October 1, 1992. The policy was implemented to prevent premature abandonment of marginally economic and shut-in oil wells and to maximize the ultimate recovery of such wells. The Secretary will evaluate the effectiveness of the stripper well royalty reduction program and may at any time after September 10, 1997, terminate any or all royalty reductions granted under these provisions upon 6 months notice.

ROYALTY REDUCTION
ON STRIPPER
OIL WELLS

To qualify for a stripper oil well royalty reduction, the operator is required to calculate the reduced royalty rate in accordance with the criteria in 43 CFR 3103.4-1(c) and (d) and notify the MMS. The MMS will verify that the reduced rate (qualifying rate) submitted by the operator is correct and will notify all interested parties of the qualifying reduced rate. The qualifying reduced rate will prevail for the duration of the stripper royalty rate program unless a lower rate is recalculated by the operator for subsequent claim years and notifies MMS within 60 days of end of that claim year.

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B. Action on Application for Reduction of Rental or Royalty

The following procedures are applicable for requests for a rental or royalty reduction, other than for stripper oil well properties, that are required to be filed in the proper BLM office.

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Receive the application and review it for administrative completeness. Ensure that all the information required by 43 CFR 3103.4-1 is presented. If the application is incomplete, request the additional information from the applicant.	ROYALTY/RENTAL REDUCTION APPLICATION REVIEW
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Date request for royalty reduction filed; DE 1775/2910 Action Code 624; Action Remarks: Optional.	AUTOMATED NOTATION
SO Fluid Minerals or Field Office Operations	3.	Determine whether the situation presented by the lessee/operator warrants a Federal royalty/rental reduction consideration in accordance with the appropriate, established BLM criteria.	ELIGIBILITY DETERMINATION
	4.	If all criteria for a royalty/rental reduction are not met, notify the applicant explaining the reason the lease is not eligible for a reduction of the royalty/rental. Also, advise the applicant of the right of appeal under 43 CFR 3165.4.	REDUCTION DENIED
ALMRS Entry	5.	Enter Action Date (MANDATORY ACTION CODE): Date royalty/rental reduction denied; DE 1775/2910 Action Code 626; Action Remarks: Enter reason (optional	AUTOMATED NOTATION
SO Fluid Minerals or Field Office Operations	6.	If all criteria for the royalty/rental reduction are met, advise the SO Lease Adjudication of the provisions for the reduction.	REDUCTION APPROVED

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Responsible Official	Step	Action	Keywords
Adjudication	7.	Issue a decision reducing the royalty/rental rate in accordance with the recommendation provided by the Fluid Minerals Staff (see Illustration 12).	DECISION ISSUED - REDUCTION APPROVED
ALMRS Entry	8.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
	8a.	Enter Action Date (MANDATORY ACTION CODE): Date royalty reduction approved; DE 1775/2910 Action Code 625; Action Remarks: Effective date.	
	8b.	Enter Action Date (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for entire lease, e.g., DE 1775 Action Code 107/DE 2910 Action Code 535 (RLTY RATE - 5%), <u>or</u> DE 1775 Action Code 108/DE 2910 Action Code 536 (RLTY RATE - OTHER); Action Remarks: Enter new royalty rate (when DE 1775 Action Code 108/DE 2910 Action code 536 is entered), followed by a tie / / for old royalty rate to be entered in General Remarks; General Remarks: Enter old royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	
		<u>NOTE</u> : Remove old royalty rate code when reduction applies to entire lease.	
SO Fluid Minerals or Field Office Operations	9.	Upon a determination that the royalty reduction is no longer necessary to promote development or to allow the successful operation of the lease, notify SO Lease Adjudication.	TERMINATION OF ROYALTY REDUCTION
Adjudication	10.	Issue decision rescinding royalty rate reduction (see Illustration 13).	DECISION ISSUED - REDUCTION ENDED

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Responsible Official	Step	Action	Keywords
ALMRS Entry	11.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
	11a.	Enter Action Date (MANDATORY ACTION CODE): Effective date royalty rate reduction lifted; DE 1775 Action Code 631/DE 2910 Action Code 630; Action Remarks: add a tie / / to appropriate DE 1775/2910 Action Code 625.	
	11b.	Enter Action Date: (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for entire lease, e.g., DE 1775 Action Code 104/DE 2910 Action Code 532, <u>or</u> DE 1775 Action Code 102/DE 2910 Action Code 530; Action Remarks: Enter a tie / / to General Remarks; General Remarks: Enter previous royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	

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C. Action on Notification of Reduction of Royalty - Stripper Oil Wells

Responsible Official	Step	Action	Keywords
Minerals Management Service	1.	Receive notification from operator of calculation of reduced royalty rate. Ensure all information required by 43 CFR 3103.4-1(c) and (d) is present.	ROYALTY REDUCTION NOTIFICATION FROM WELL OPERATOR
	2.	Verify that the reduced royalty rate submitted by the operator warrants a Federal royalty reduction consideration in accordance with the established criteria.	STRIPPER OIL WELL ROYALTY REDUCTION ELIGIBILITY DETERMINATION
	3.	If all criteria for a stripper oil well property royalty rate reduction are not met, notify the operator of the reason the oil well property is not eligible for reduction of royalty. Also, advise the operator of the right of appeal under 43 CFR 3165.4.	STRIPPER OIL WELL ROYALTY REDUCTION DENIED
	4.	If all criteria for the stripper well royalty reduction are met, notify the operator, the BLM Field Office fluid mineral operations staff, and the SO Lease Adjudication of the provisions for the royalty rate reduction.	STRIPPER OIL WELL ROYALTY REDUCTION APPROVED
ALMRS Entry	5.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
	5a.	Enter Action Date (MANDATORY ACTION CODE): Date of the MMS memorandum approving the royalty rate reduction; DE 1775/2910 Action Code 625; Action Remarks: Enter a tie / / to DE 1775 Action Code 630/DE 2910 Action Code 621, as also entered (see next step).	

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Responsible

OfficialStepActionKeywords

5b. Enter Action Date (MANDATORY ACTION CODE): Effective date of stripper oil well royalty reduction; DE 1775 Action Code 630/DE 2910 Action Code 621; Action Remarks: Enter new royalty rate for stripper oil well property, and a tie / / to DE 1775/2910 Action Code 625 (see step above) and to General Remarks; General Remarks: Operator name, well number, AIRS IID rate, etc., (optional).

NOTE: If the oil well property reduced royalty rate pertains to unit or CA wells, show the serial number of the agreement with the tie / / in General Remarks. If there are lease, unit and/or CA oil wells located on a leasehold, more than one stripper well royalty rate reduction may be indicated for a lease.

Minerals
Management
Service

6. Upon a determination that the stripper oil well royalty reduction is no longer necessary to promote development or to allow the successful operation of the lease, issue a decision to the operator rescinding the royalty rate reduction, and notify the BLM Field Office fluid mineral operations and the SO Lease Adjudication with a copy of the decision.

TERMINATION
OF ROYALTY
REDUCTION

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Responsible Official	Step	Action	Keywords
ALMRS Entry	7.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
	7a.	Enter Action Date (MANDATORY ACTION CODE): Effective date that stripper oil well property royalty rate reduction was lifted; DE 1775 Action Code 631/DE 2910 Action Code 630; Action Remarks: Enter a tie / / to the applicable DE 1775/2910 Action Code 625, and to the applicable DE 1775 Action Code 630/DE 2910 Action Code 621; General Remarks: Optional.	
	7b.	Enter Action Date (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for stripper oil well property, e.g., DE 1775 Action Code 104/DE 2910 Action Code 532, <u>or</u> DE 1775 Action Code 102/DE 2910 Action Code 530; Action Remarks: Enter a tie / / to General Remarks; General Remarks: Enter previous royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	